Basic Economic Concepts

BA 240 Christianity and Economics

What is Economics?

- Multiple definitions:
  - Study of choice under scarcity
  - The science which studies human behavior as a relationship between ends and scarce means which have alternative uses.
- Two branches:
  - Microeconomics: focuses on how human behavior affects the conduct of affairs within narrowly defined units, such as individual households, business firms, or churches
  - Macroeconomics: focuses on how human behavior affects outcomes in highly aggregated markets, such as the markets for labor or capital

Incentives

- Rewards or punishments that motivate behavior
  - Positive: rewards (commissions on sales)
  - Negative (punishment): speeding tickets
- Major aspect of economics
- Can be monetary or nonmonetary
  - Monetary: British prisoner shipments to Australia in 1790s
  - Nonmonetary: Opting out rather than opting into employee retirement plans

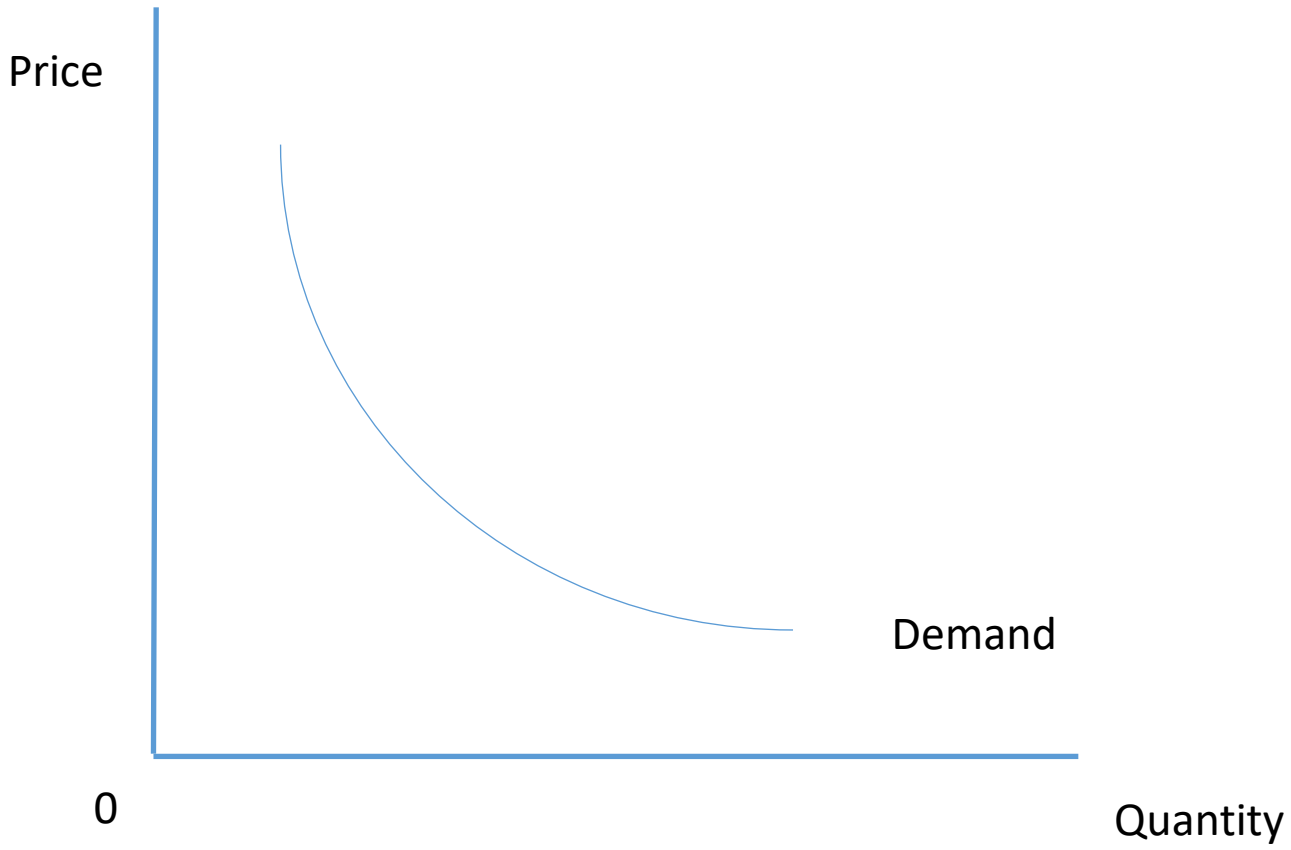
Opportunity Cost

- Every decision has an opportunity cost
- The highest valued alternative that must be sacrificed as a result of choosing an option.
- Examples:
  - Opportunity cost of being a Presbyterian is not being a Methodist
  - Opportunity cost of going to Erskine is not going to Anderson University
  - Opportunity cost of eating at Moffitt is not eating at Grits & Groceries

Demand

- Reflects consumer willingness and ability to pay for a given quantity and quality of a good or service at a given point in time
- Can have demand curves for individuals or for entire markets
- Downward sloping curves
- Many things can cause demand curves to shift
  - Income
  - Changes in tastes and preferences
  - Complements and substitutes
  - Population
  - Expectations

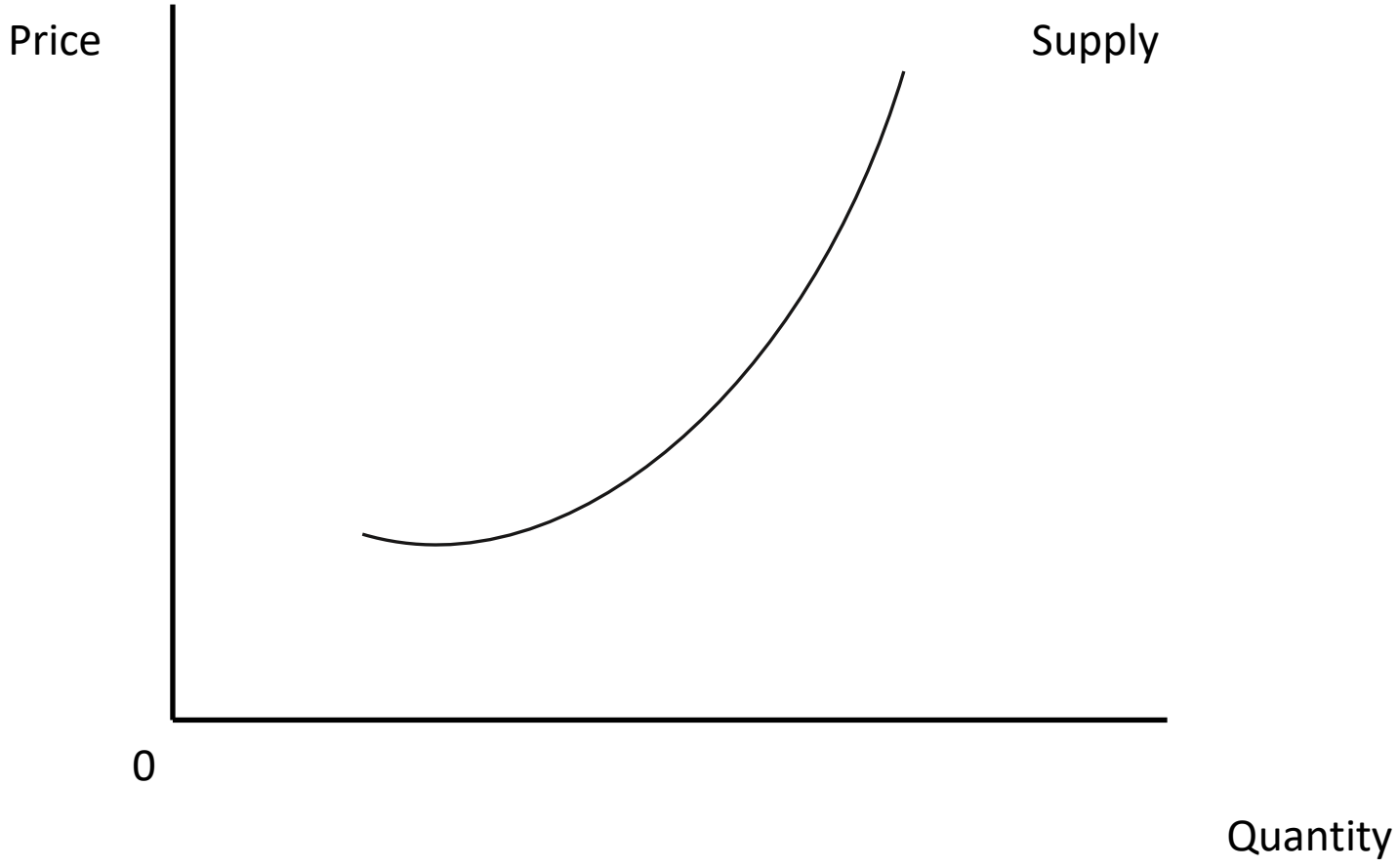
Demand Curve



Supply

- Reflects the ability and willingness of firms to produce a given quantity and quality of a good or service at a given point in time
- Upward sloping curves
- Can have them for individual firms/companies or whole industries
- Ultimately based on marginal costs of production.
- Many things can cause supply curves to shift
  - Technology
  - Input prices
  - Taxes and subsidies
  - Expectations
  - Entry or exit of firms
  - Changes in opportunity costs

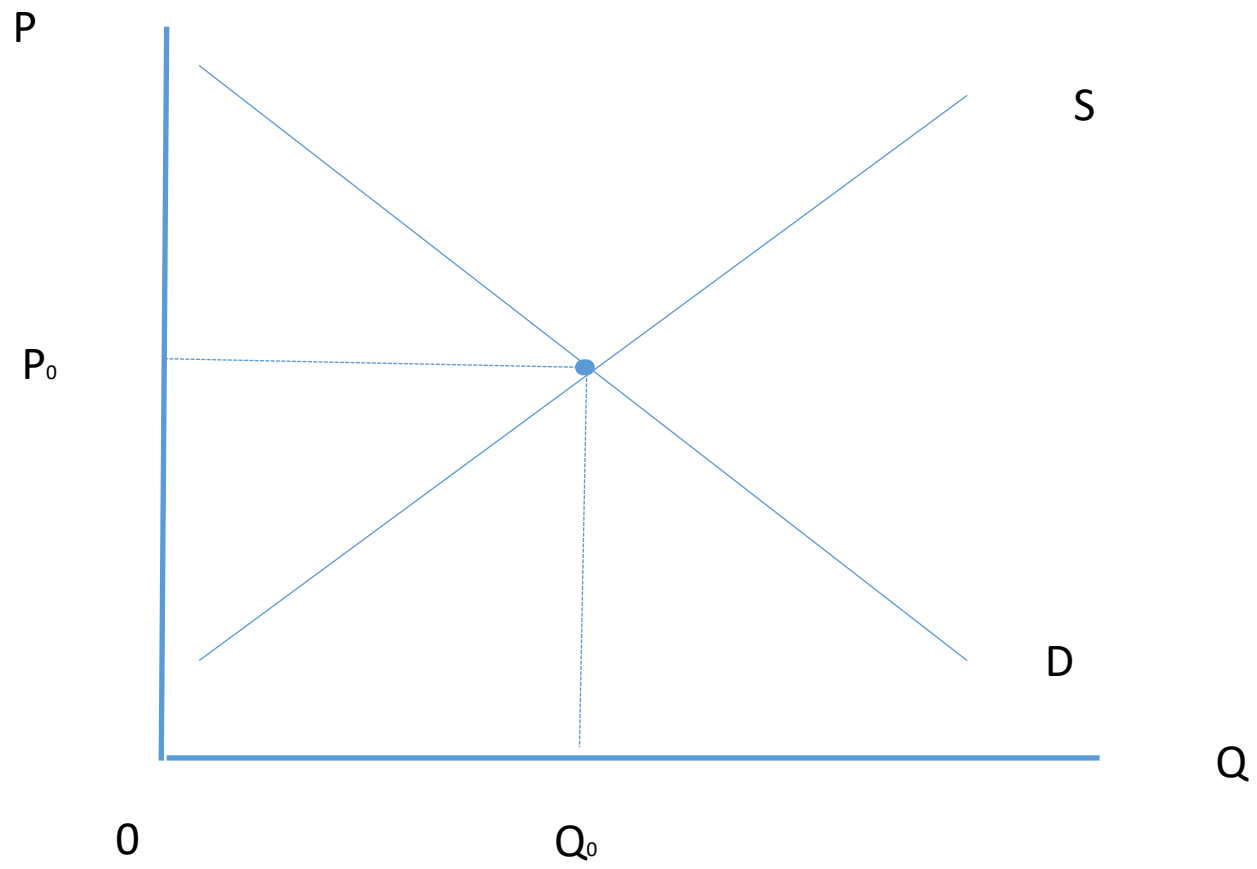
Supply Curve



Supply and Demand

- When supply and demand interact, that is where we get prices!
- Where they intersect, we get the equilibrium quantity and price
  - Quantity supplied will equal quantity demanded
- At this price and quantity, the market will clear
  - Meaning there is no unmet demand and no unsold supply *at that price*.
- Now, if supply and/or demand shifts we get a new equilibrium

Supply and Demand



Equilibrium: How Prices are Determined

- The interplay of buyers and sellers in markets determines prices
- Markets: the interaction of buyers and sellers with the potential for exchange to occur
- Buyers and sellers gain from exchange
  - Consumer and producer surplus
- At equilibrium, no gains from exchange or gains from trade are left on the table

GOVANDE
ONION
PRICES

The Role of Prices

- Allocate resources
- Motivate consumer and producer behavior
  - Incentives!
- Provide information

"If you want quality the price is high and if you want a low price the quality is poor - but you can't have both!"

Costs

- Include both implicit and explicit costs
- Explicit costs: money changes hands
  - Variable costs: change with the level of production
  - Fixed costs: incurred whether anything is produced or not
- Implicit costs
  - Opportunity costs: highest valued uses of inputs if not used in their current usage
  - Money does not move with implicit costs
- Must consider all costs when making or analyzing decisions

Social Costs

- Private costs
  - Incurred by people engaging in a transaction
- External costs
  - Falls on people who aren’t part of the transaction
  - Frequently not considered by parties to the transaction
- Social costs = Private costs + External costs
  - Must consider social cost when making looking to achieve social efficiency

Scarcity

- Resources are limited

- Prices reflect the level of scarcity
  - Higher prices imply greater scarcity
  - Lower prices imply lower scarcity

- Implies we must make choices! We can’t have everything we want!
  - Means we must make trade-offs

Marginal

- Critical in economics
- Describes the effects of a change in the current situation due to small, incremental changes
- Marginal benefit: additional benefit from or the maximum price a consumer would be willing to pay for an additional unit
- Marginal cost: additional cost required to produce or acquire an additional unit
- Compare marginal benefit to marginal cost when making decisions
- ‘Thinking on the margin’

Institutions

- Established arrangements and structures that are part of a culture or society
- Formal
  - Property rights, judiciary, competitive markets
- Informal
  - Conventions on tipping, placing belongings at a desk, not approaching a person wearing a wedding band with romantic intent
- Guide economic decisions

Organizations

- Many exchanges occur within markets
- Others occur within organizations
- Three broad areas of organizational economics
  - Agency theory: deals with resolving problems between agents (employees) and owners (principals)
  - Transaction costs: cost to complete exchanges
  - Property rights economics

Summary

- We'll explore these concepts further as we go through the course.
- If your head is spinning, don't worry about it!
  - This isn't a pure introduction to economics course. We need economics to explore the economics of religion/Christianity.
  - I'll do all I can to keep things as simple as possible.
  - You may need to refer to these notes periodically for a refresher when a new term/concept is introduced.
  - I'll explore other concepts as they arise.
  - The Concise Encyclopedia of Economics is a tremendous resource.